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# Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

2014-15 to 2015-16 strategic internal audit plan and  
2014-15 annual internal audit plan

**DRAFT**

DRAFT 14 August 2014

This report is for:

**Action**

*Audit committee*

**Information**

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**Notice: About this report**

This Report has been prepared on the basis set out in our Engagement Letter addressed to the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority dated 28 June 2011 and extended as of the letter dated [ ] 2014 (the “Services Contract”) and should be read in conjunction with the Services Contract. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contract. This Report is for the benefit of the Client only. This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Client alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Client) for any purpose or in any context. Any party other than the Client that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Client’s Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Client. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other central government body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the central government sector or those who provide goods or services to those who operate in the central government sector.

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## Background

Internal audit is an independent appraisal of the adequacy and effectiveness of the internal control process operating in an organisation. Internal audit supports the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Authorities”) and senior management in achieving agreed strategic and operational objectives and in discharging their corporate governance responsibilities. Internal audit's roles are to: assess how operating risks are being managed and controlled and report to senior management and the audit committee on the results of these assessments; and influence the continuous development of the risk management and control process through sharing best practice.

## Introduction

This strategic and annual internal audit plan sets out the scope of the planned work to be undertaken by internal audit for 2014-15, together with a strategic internal audit plan which incorporates 2015-16 on an indicative basis. These plans were developed based on consideration of the following:

- suggested areas of focus from, and discussion with, members of the senior management team;
- comments from the chairs and members of the audit committees;
- consideration of the risk registers;
- requirements for internal audit;
- the previous year's internal audit plan;
- observations and key findings arising from internal audits conducted during 2013-14;
- changes in the operating environment and state of control as identified through discussion with management; and
- consideration of key business processes.

**Your internal control process comprises all aspects of control including managerial, operational and financial. It embraces not only internal control objectives, but also the requirements of relevant legislation and of external regulators.**

### Introduction (continued)

The plan categorises risks and internal audit coverage across four areas:

- Financial – Financial risks, including Scottish Government funding cuts and reductions in other funding, including partnership funding, as well as increasing cost pressures.
- Operational – Risks to the success of delivery of operations at the Authorities, including the risk of non-achievement of aims and targets, inadequate staffing resource, inadequate performance of partners and the impact of economic decline on operational delivery.
- Reputational – Reputational risks include visitor reputation, as well as wider risks, such as risks to the ecosystems.
- Probity – The risk of inadequate corporate governance or risk management arrangements, as well as compliance with relevant regulations.

Internal audit is not itself part of the internal control system, nor is it responsible for internal control or for compliance, which remains the responsibility of management. Internal audit's work will normally include, but is not restricted to:

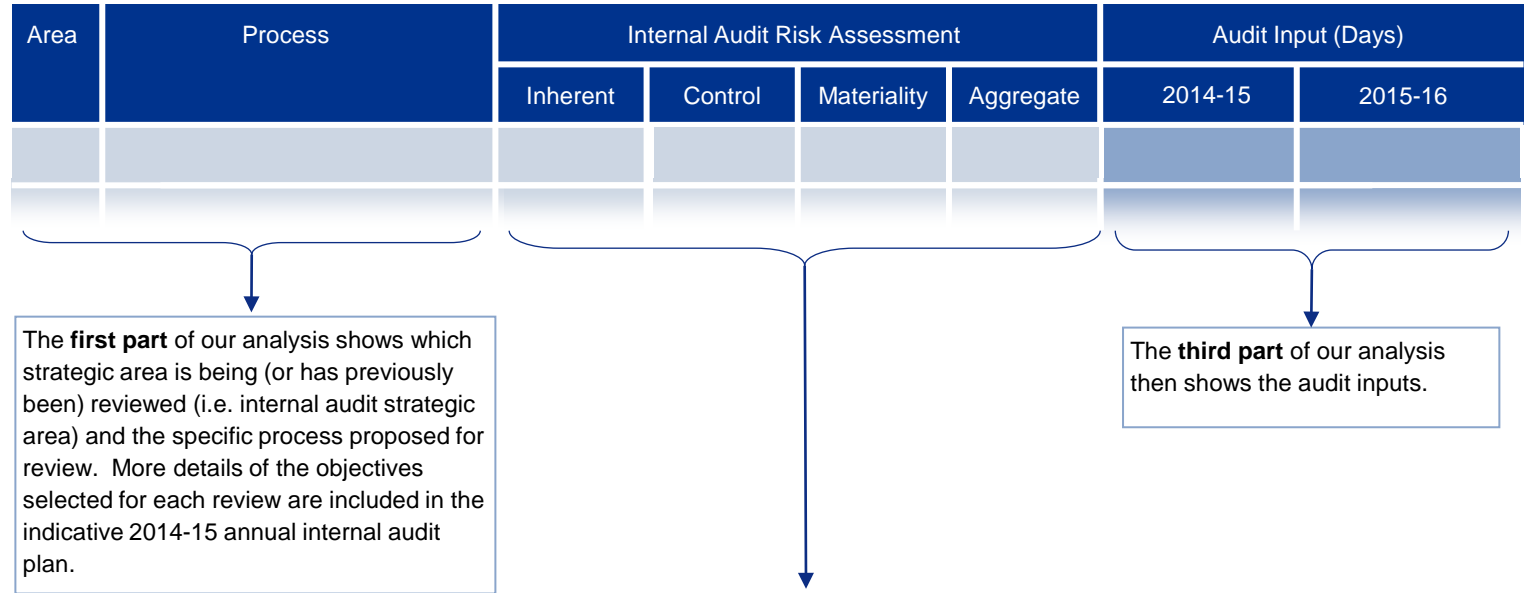
- reviewing the risk management and internal control processes developed and maintained by management to ensure the achievement of agreed strategic and operational goals and objectives;
- assessing compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations;
- identifying arrangements to ensure safe custody of assets and, where appropriate, verifying the existence of assets; and
- considering the robustness of arrangements to ensure the effective and efficient use of resources.

### Independence

Independence is established by organisational status through reporting lines and by members of internal audit carrying out their duties freely and objectively.

Independence and objectivity will be deemed to be impaired if internal audit staff are required to carry out any executive or operational duties. In order to assure the independence of internal audit, the prime upward reporting line is to the audit committee. An executive reporting line is required for day to day and administrative purposes, such executive reporting is to the corporate services director / director of corporate services.

We have used the following internal audit risk assessment process to analyse the processes under review:



The **second part** of our analysis uses the following risk assessment process to analyse the process under review:

Inherent risk	Control risk	Materiality	Aggregate
Our assessment of the overall level of risk associated with the audit area – this is effectively a gross relative risk of the potential impact on the Authority of this area.	Our assessment of the risk that exists within a particular area based upon the controls that we are aware the Authority has in place – this is effectively the likelihood of the risk being realised.	Our assessment of the potential financial or reputational consequence to the Authority. This might be judged by the potential for a monetary loss or the extent to which it impacts on core business objectives.	This is our overall assessment of risk associated with each of the audit areas. It is reached with regard to each of the previous assessment of risks.

Risk category	Process	2014-15 internal audit plan reference	Internal audit risk assessment				Audit coverage					
			Inherent	Control	Materiality	Aggregate	2014-15			2015-16		
							L	C	Tot	L	C	Tot
Financial	LEADER review	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-
	Commercial developments	-	High	Medium	Medium	Medium	-	-	-	4	2	6
	<b>Total days</b>						-	-	-	<b>4</b>	<b>2</b>	<b>6</b>
Operational	Records management	1	Medium	High	Medium	Medium	3	3	6	3	3	6
	Planning processes and systems	2	Medium	Medium	Medium	Medium	-	4	4	-	-	-
	Workforce management and appraisals	-	High	Medium	High	High	-	-	-	5	5	10
	<b>Total days</b>						<b>3</b>	<b>7</b>	<b>10</b>	<b>8</b>	<b>8</b>	<b>16</b>

Risk category	Process	2014-15 internal audit plan reference	Internal audit risk assessment				Audit coverage					
			Inherent	Control	Materiality	Aggregate	2014-15			2015-16		
							L	C	Tot	L	C	Tot
Reputational	Project management	3	High	Medium	High	High	6	6	12	-	-	-
	Complaints handling	-	Medium	Medium	Medium	Medium	-	-	-	4	4	8
						<b>Total days</b>	<b>6</b>	<b>6</b>	<b>12</b>	<b>4</b>	<b>4</b>	<b>8</b>
Probity	Payroll and pensions administration	4	Medium	Medium	High	Medium	5	5	10	-	-	-
	Fixed asset register	5	Medium	Medium	High	Medium	4	-	4	-	-	-
	New board members – roles and inductions	-	High	Medium	High	High	-	-	-	4	4	8
						<b>Total days</b>	<b>9</b>	<b>5</b>	<b>14</b>	<b>4</b>	<b>4</b>	<b>8</b>
	<b>Total days for internal audits</b>						<b>18</b>	<b>18</b>	<b>36</b>	<b>20</b>	<b>18</b>	<b>38</b>
	<b>Follow-up of previous internal audit recommendations</b>								3			3
	<b>Contract management</b> (including annual internal audit plan and annual internal audit report)								9			9
	<b>Total internal audit days</b>								<b>48</b>			<b>50</b>

The composition of the 2014-15 internal audit plan is summarised below. The specific objectives, scope and approach of each internal audit will be agreed with the internal audit sponsor, and manager responsible for the process subject to internal audit, prior to the commencement of individual internal audit projects.

Ref4	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
1	Records management	<ul style="list-style-type: none"> <li>Records management system migration is not effectively planned, with risks of data being lost or compromised not mitigated.</li> <li>Data is not transferred appropriately, resulting in efficiencies or service deterioration.</li> <li>The records management system is not structured in an efficient and user-friendly manner.</li> <li>Staff are not aware of the functionality of the new system or their responsibilities in respect of date integrity.</li> </ul>	<p>The review for 2014-15 is in respect of pre-implementation, with a post-implementation review planned for 2015-16. We will:</p> <ul style="list-style-type: none"> <li>review and discuss with management the proposed project plan for the implementation of the new system and the transfer of data;</li> <li>consider the robustness of the planned procedures to migrate the data, including back-up procedures and data integrity testing</li> <li>review the proposed structure of the new records management system and consider areas of improvement if relevant;</li> <li>assess the plans for training of staff and communication of user testing and remapping responsibilities; and</li> <li>consider improvement opportunities by reference to similar projects at other organisations.</li> </ul>	3	3	6



Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
2	Planning processes and systems	<ul style="list-style-type: none"> <li>Development is approved that is not in line with strategic goals (e.g. conservation).</li> <li>Unapproved development is undertaken within Park boundaries.</li> <li>Planning approvals do not represent an appropriate mix of stakeholders.</li> <li>Reputational damage from any of the above.</li> </ul>	<p>This review will look at the new processes and practices for Planning applications which have been adopted in response to the Scottish Government modernising planning agenda. It will examine if new processes are delivering a more successful planning service.</p> <p>Our work will include</p> <ul style="list-style-type: none"> <li>review of the pre-application advice service and the value this is adding to the planning application process;</li> <li>review of the project management of significant planning applications</li> <li>review of the implementation and effectiveness of Service Improvement Plans, Development Plan Charter and Planning Performance Frameworks.</li> </ul>	-	4	4
3	Project management	<ul style="list-style-type: none"> <li>Undefined project benefits and outcomes, financial and non-financial, lead to inefficiencies or non-achievement of project objectives.</li> <li>Delays in key projects lead to inefficiencies, increased costs and non-achievement of targets or strategic objectives.</li> <li>Governance processes are insufficient to mitigate risks, including non-compliance of regulations.</li> </ul>	<p>We will consider the project management policies and procedures, specifically we will:</p> <ul style="list-style-type: none"> <li>review policies and procedures against best practice;</li> <li>review and test processes to manage project initiation, delivery and completion;</li> <li>assess the risk assessment procedures and subsequent project authorisation steps;</li> <li>review the procedures designed to ensure that the Equalities Act 2010 is complied with, including the completion of Equalities Impact Assessments; and</li> <li>select a sample of projects and test implementation and effectiveness of project management controls.</li> </ul>	6	6	12

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
4	Payroll and pensions administration	<ul style="list-style-type: none"> <li>■ Key controls over the payroll process do not prevent or detect fraud, error or non-compliance in a timely manner.</li> <li>■ Processes are not efficient; incorporating significant manual intervention or duplication.</li> <li>■ Changes in the tax regime and pensions regime are not proactively addressed.</li> <li>■ Processes do not effectively manage and monitor attendance.</li> </ul>	<p>We will carry out specific testing over the following payroll areas:</p> <ul style="list-style-type: none"> <li>■ new joiners and leavers;</li> <li>■ amendments to standing data (such as salary);</li> <li>■ exception reporting;</li> <li>■ payment authorisation and non-standard payments;</li> <li>■ pension payments;</li> <li>■ changes to the payroll and pensions regulations;</li> <li>■ management and monitoring of attendance.</li> </ul> <p>We will test:</p> <ul style="list-style-type: none"> <li>■ the design and operating effectiveness of controls;</li> <li>■ the efficiency of the overall process, including consideration of best practice; and</li> <li>■ the use of manual / automated processes and opportunities for increased efficiency.</li> </ul>	5	5	10

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
5	Fixed asset register	<ul style="list-style-type: none"> <li>■ Capital additions are not appropriately authorised prior to commitment.</li> <li>■ The fixed asset register does not accurately reflect the assets in use by the Authority.</li> <li>■ Revaluations are not processed correctly, or impairments not appropriately treated.</li> </ul>	<p>We will perform a review of the policies and processes in respect of fixed assets. We will:</p> <ul style="list-style-type: none"> <li>■ consider the design of fixed asset policies, to assess the robustness and efficiency, comparing with similar organisations' policies;</li> <li>■ test a sample of capital additions, to verify the operation of controls;</li> <li>■ review the procedures designed to ensure that the fixed asset register is up-to-date and accurately reflects the assets in use;</li> <li>■ review the treatment of any revaluations or impairments, and consider appropriateness of the treatment and the overall governance arrangements in respect of the revaluations.</li> </ul> <p>In performing the review we will consider the policies and processes compared to best practice.</p>	4	-	4

# Appendices

We recognise the importance of implementing a performance framework that allows stakeholders to measure the contribution from internal audit. To monitor and demonstrate this, we will continue to report our performance against KPI's, which is important to us and of value to you.

Key Performance Indicator	Target
<b>Provision of service and planning</b>	
The planned and actual outturn for the time employed on the audit of each review will not be greater than that within the annual plan, unless previously agreed with the Authority.	100%
We will submit our Internal Audit Plan to the Audit Committee in order to enable agreement prior to August 2014.	100%
The Head of Internal Audit or Audit Manager will attend all Audit Committee meetings.	100%
<b>Approach</b>	
Audit terms of references will be agreed with management at least 10 working days before planned commencement of audit.	100%
We will hold an opening meeting with relevant staff and management either prior to, or on the first day of fieldwork.	100%
We will agree with management the systems and control objectives of each Internal Audit scope prior to the commencement of our work.	100%
We will hold an exit meeting to discuss the findings of our review with the relevant Authority staff and management either on the final day of onsite work or within two working days of receipt of final provision of all information.	100%
<b>Reporting</b>	
Draft reports will be issued within two weeks of exit meeting and final provision of information.	100%
Management responses will be received within two weeks of the draft report being issued.	100%
Final reports will be issued within two weeks of receipt of management responses.	100%
Progress reports will be provided at each Audit Committee meeting.	100%
Finalisation of the annual internal audit report by 30 June 2015.	100%

**As in the prior year annual internal audit plan, we set out our proposed internal audit charter as required by the public sector internal audit standards (“PSIAS”).**

### **Introduction**

The Institute for Internal Auditors (“the IIA”) define internal auditing as: an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of an organisation. It assists organisations in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

### **Role**

The internal audit service is established by the board, with responsibility delegated to the audit committee, and the internal audit activity's responsibilities are defined by the Authorities' audit committees as part of their oversight role.

### **Professionalism**

The internal audit activity will govern itself by adherence to the IIAs' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (“Standards”). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's' practice advisories, practice guides, and position papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Authorities' relevant policies.

### **Authority**

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the Authorities' records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the board and audit committee.

### **Organisation**

The Head of Internal Audit will report functionally to the audit committee and administratively (i.e. day to day operations) to the head of corporate services.

The audit committee will approve the internal audit charter and the risk based internal audit plan. It will also approve all decisions regarding the performance evaluation of the internal audit service. The Head of Internal Audit will communicate and interact directly with the audit committee, including in executive sessions and between audit committee meetings, as appropriate.

### **Independence and objectivity**

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will confirm to audit committee, at least annually, the organisational independence of the internal audit activity.

### **Responsibility**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- evaluating the effectiveness and efficiency with which resources are employed.
- evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- monitoring and evaluating governance processes.
- monitoring and evaluating the effectiveness of the organisation's risk management processes.
- evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.

- reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the board, or audit committee.
- evaluating specific operations at the request of the board, or audit committee, or management, as appropriate.

#### Internal audit plan

At least annually, the Head of Internal Audit will submit to the audit committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal / calendar year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the audit committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the audit committee. Any significant deviation from the approved internal audit plan will be communicated to senior management and the audit committee through periodic activity reports.

#### Reporting and monitoring

A written report will be prepared and issued by the Head of Internal Audit, or designee, following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the audit committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Internal audit will be responsible for appropriate follow-up on engagement findings and recommendations.

#### Period assessment

The Head of Internal Audit will periodically report to senior management and the audit committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board, or audit committee.

In addition, the Head of Internal Audit will communicate to senior management and the audit committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.





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